

REPORT
OF THE
COMMITTEE ON WORLD ECONOMIC PRACTICES

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REPORT
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I. INTRODUCTION

This Committee has been asked to recommend a combined governmental and private enterprise program to counter the mounting Sino-Soviet Bloc offensive by the development of a sound expanding Free World economic system.

In formulating its recommendations, in response to this request, the Committee has agreed upon the following guide-lines:

A. **THE PROBLEM**—The problem arises from the remarkable increase in Communist economic capacity and the new uses to which it is put. The Communists are using their power to influence and control such countries as they can. Communist designs and maneuvers, playing upon the cravings of increasing numbers of people for more and better things, pose a long-term problem of the first magnitude.

B. **USE OF PRIVATE ENTERPRISE**—It is of the utmost importance that new and greater use be made of the resources and initiative of private enterprise. In this Report, therefore, the Committee has indicated ways in which private energies of the United States and its allies can be more effectively mobilized in the Free World's economic programs, and through which the private sectors of the less developed countries can be strengthened.

C. **A POSITIVE PROGRAM**—The Soviet threat cannot be met by attempts to counter each and every move in the Bloc offensive. An effective Free World program should encourage balanced economic growth in the less developed areas. The program should also be carefully tailored to the needs, institutions and traditions of individual countries and adaptable to different and changing situations.

D. **CLEAR OBJECTIVES**—Existing United States programs reflect mixed purposes—military, economic, agricultural, humanitarian and cultural. Objectives should be clearly determined and stronger central policy direction established.

E. **ESSENTIAL CONTINUITY**—Foreign aid, it is hoped, will not be of indefinite duration. It is important, however, as long as foreign aid is necessary, that it should have continuity. It should not be on a year-by-year basis. Preferably, funds should be appropriated without the requirement that they be expended within any fixed time period.

F. **QUALITY OF PERSONNEL**—In operations abroad, both public and private, the quality and preparation of personnel are all-important.

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G. MAGNITUDE OF AID—The magnitude and character of Free World economic assistance to less developed countries should be such as will have the desired political and psychological impact and make a meaningful contribution to sound economic growth. Assistance should also be related to the capacity and disposition of the recipient country to use it effectively. The amount of such assistance should be measured against the importance of maintaining a strong United States economy, which is basic to the development of a strong Free World economy.

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The security of the United States and the freedom of the individual throughout the world are at stake. The forces of the free nations must be joined in a common cause.

II. PRIVATE ENTERPRISE IN FOREIGN DEVELOPMENT

Private enterprise has played a major role in the development of large areas of the world and will play a greater role in the future if given the opportunity.

In many of the less developed countries, however, which are today the main targets of the Sino-Soviet economic offensive, conditions are on the whole not attractive to private investment. Aside from the extractive industries, the flow of private capital to those areas is extremely small. A greater volume of private capital can be induced to flow into these critical areas if appropriate techniques and incentives are employed by the U. S. Government.

Despite inducement, the flow of private capital to many politically critical countries may still be inadequate and U. S. Government financing will continue to be required. However, the initiative and know-how of industry, universities and foundations should be fully utilized in government financed programs.

To these ends a private enterprise-government partnership should be forged. The result will be far more effective than under programs managed and directed solely by our own or other governments.

To achieve the best results, greater emphasis in country programs should wherever possible be on project assistance rather than on budget and balance of payments support. The resources of private enterprise can most effectively be brought to bear on tangible projects. Projects must be identified in collaboration with the host countries with regard for timeliness and the needs of the countries so as to make a visible and lasting contribution to development and have the greatest psychological impact.

To stimulate the investment of private capital and to encourage the participation of private enterprise in U. S. Government programs, the Committee has certain recommendations.

A. GOVERNMENT SUPPORT OF PRIVATE ENTERPRISE

Where a United States or Free World private organization is prepared to invest in and competent to build a development project, the U. S. Government should not provide assistance to a foreign government to build or operate such facilities on its own unless political considerations or the nature of the project are controlling.

The Development Loan Fund and other agencies of the U. S. Government should make greater use of their powers and resources to stimulate private capital to invest in priority development projects.

1. *Loans*

While the Development Loan Fund is authorized to make loans (hard and soft) to both private concerns and governments, loans thus far approved for private interests have been considerably less than for governments, both in number and in total dollar amount. This no doubt reflects, at least in part, the nature of the original applications. Of the three hundred odd pending applications about half are private and half public. The U. S. Government should use Development Loan Fund loans more actively to stimulate private investment in identified development projects. This is contemplated by the statute and applies to both United States and foreign private concerns. It is recommended:

a. Where necessary to induce private investors to invest in and undertake foreign development projects, the Development Loan Fund should make greater use of loans of dollars in combination, where required, with loans of soft currencies from P.L.-480 and other sources.

b. While loans should not be extended when funds are available on reasonable commercial terms, they should not be denied simply because the applicant may have ample credit. It is a matter of willingness to risk—not merely of ability to borrow.

c. The policy under which the Development Loan Fund finances only up to 50% of a private project should be materially relaxed.

d. The Development Loan Fund policy of insisting upon maintenance of value should be relaxed on loans to private borrowers.

e. The Development Loan Fund is prohibited by statute from acquiring outright equity investments. It is, however, authorized to acquire obligations having convertible or other similar features. When such instruments can be used in combination with private United States or foreign capital to stimulate private investment, these legally authorized securities should be employed.

2. *Guaranties*

a. The Development Loan Fund should use guaranties to stimulate private investment in preference to direct loans. It should use its broad powers to guarantee hard dollar loans, possibly even up to the full amount of the investment where appropriate. However, some sharing of the risk by the private financial institution providing the funds is to be preferred. Consideration should be given to covering these guaranties on a fractional reserve basis.

b. Restrictions imposed on the Development Loan Fund limiting the rates of interest that may be charged by private creditors on guaranteed loans should be relaxed.

c. The present ICA program of investment guaranties against specific risks should be expanded to cover the risk of loss attributable to revolution, insurrection and other civil disorders. Such guaranties should also be made available for modification, expansion or improvement of existing investments as well as "new" investments.

d. The State Department should continue to press for treaty agreements with countries which have not yet joined the guaranty program, and to this end should consider reducing some of the requirements and conditions currently being imposed which are found objectionable by the foreign countries.

e. In the administration of loans and loan guaranties, care must be taken to insure that the amount of government assistance given to a private organization is no greater than is required to induce the desired investment in priority development projects. Loans and guaranties should mainly be limited to countries where unusual political and economic risks outweigh the normal incentives for the establishment of operations by United States private enterprise.

3. *Taxes*

The tax laws should be amended to permit corporations to defer tax on foreign income until it is brought back into the United States and then, at the corporation's election, subject it to a tax of 7.8%, the present rate on intercorporate dividends; permit investment companies to pass through to stockholders the foreign tax credit; increase the flexibility of the use of the foreign tax credit; and permit individuals to deduct from ordinary income losses on certain investments in foreign business. (See Appendix 1 for details.)

4. *Anti-Trust*

The anti-trust laws should be amended to exempt arrangements, entered into with the approval of the Secretary of State and the Attorney General, which are important to the Foreign Aid Program. Pending such legislation, the Department of Justice should adopt the policy of expediting the issuance of rulings which would in a measure protect persons entering into any such arrangements which are not clearly in violation of the anti-trust laws. (See Appendix 2 for details.)

B. PRIVATE ENTERPRISE IN GOVERNMENT OPERATIONS

Where private enterprise will not undertake a project or where political considerations or the nature of the project require government-to-government assistance, the managerial and technical talents of the private sector of our economy should nevertheless be employed more extensively in government projects and technical assistance programs.

It is recommended:

1. Rather than giving money to the foreign government to build a project, (e.g., a fertilizer plant or dam) on its own, the United States should wherever possible require that a private operator be retained (e.g., a United States chemical or construction company) to build the project, turning it over on a turn-key basis to the local government after it has been

fully put into operation. Such operators should be given freedom to select engineers and contractors, and should be encouraged to utilize local subcontractors and workmen whenever they are available and competent.

In planning for each development project, specific contractual arrangements should be included for the training of the managerial and technical personnel necessary to man the facility. Normally, the operating contractor should arrange for such training.

2. The degree of control by ICA and Development Loan Fund over the projects should vary, depending upon competence of direction and management and upon the country and type of project involved. Program and project review and implementation procedures must be made as expeditious as possible. Long delays, multiple reviews and time consuming procedures between conception of a project and its execution have produced negative political and economic results from otherwise desirable activities. There is need for greater speed of decision and action.

3. Likewise, in dealing with private organizations and individuals, appropriate agencies of Government should adopt simplified, speedy and direct procedures. Clearances of personnel and subcontractors and the pre-auditing of expenditures should be replaced by fixing broad responsibility in key governmental officials. They would determine the best manner of choosing private contractors and would then rely on such contractors for performance.

4. Technical assistance programs, wherever feasible, should also be contracted to non-governmental organizations, institutions, firms and individuals on a long-term basis in order to secure continuity of effort and able personnel. Companies, universities and other institutions should be given broader responsibility and authority to carry out technical assistance programs under contract or by the grant-in-aid technique. They should be expected to select and assign qualified personnel to the projects they undertake, and to acquaint them as fully as reasonably possible with the language, culture, history and economics of the country to which they are assigned.

5. In the formulation of national programs and in the implementation of new public-private development projects, emphasis should be given to the training of local managers, professionals and technicians—the leaders, public and private, of the less developed countries. The training of nationals of the less developed countries should be adapted to the equipment available and the operations which they are to perform in their respective countries.

6. Substantially greater assistance should be provided for the technical schools, schools of business administration and other competent and well directed training facilities in the less developed countries, particularly for institutions sponsored by United States organizations. An effort to expand the teaching and use of English would greatly assist in strengthening the bonds among Free World nations. At the same time an effort should be made to expand the training of Americans in foreign languages.

To the extent that local currency funds are acquired under P.L.-480 and other programs, they should be made fully available for these activities by changes in legislation and in international agreements if necessary.

C. LOCAL FREE ENTERPRISE

The dimensions of the development task are so great that foreign aid alone cannot be expected to suffice. Its role must be to furnish support for local efforts and to stimulate self-help. The development of a free enterprise system in the less developed countries is the best hope for economic progress in those countries. To assist such efforts within the countries themselves it is recommended:

1. Properly run local development banks should continue to be encouraged. Depending upon the quality of their management, they should be eligible for grants or loans, especially of local currencies, for re-lending to local enterprises.
2. Consideration should be given to utilizing the Development Loan Fund's guaranty powers in order to induce United States commercial banks to make loans to local free enterprise directly or through their branches or through local banks.
3. Since local development banks are in a better position to scrutinize the credit-worthiness of the smaller development projects, such banks should also be authorized and encouraged to participate with United States agencies in making loans and guaranties.
4. United States missions in the less developed countries should make recommendations, as needs are evidenced, for the establishment of other new savings and investment institutions to serve particular ends, such as agricultural credit, home financing, personal loans, etc. Private or mixed ownership is preferable to wholly owned government institutions. Where appropriate, United States owned local currencies should be made available.

III. ORGANIZATION FOR PUBLIC-PRIVATE PARTNERSHIP

A. U. S. GOVERNMENT ORGANIZATION

1. *Centralization*—Private resources can be effectively enlisted in the attainment of our political and economic objectives only as part of a bold and skillfully executed program designed to capture the imagination of people both at home and abroad. It is, therefore, essential that our foreign economic programs have vigorous and unencumbered leadership.

Our efforts to date have suffered from fragmentation and division of responsibility among many Departments, Agencies and Committees of the Government—State, Treasury, Defense, Agriculture, Commerce, ICA, DLF, Export-Import Bank, NAC, CFEP, etc. Inefficiency, ineffectiveness and delay have resulted.

The Committee strongly recommends that an individual or a single Agency or Department be charged with the responsibility and given authority to provide leadership, to determine policy and coordinate the administration of the program.

The Committee at this time makes no specific suggestion for the implementation of this recommendation.

2. *Personnel*—It is important that the U. S. Government constantly endeavor to improve the quality of its representation in the less developed countries. Personnel systems should be

improved to facilitate the recruitment and advancement of capable and promising young men and women. Language and area training should be provided to develop an adequate corps of competent personnel.

At the same time personnel should be drawn from business and industry for temporary service with the government. In this connection not only should governmental administrative road blocks be removed, but private concerns themselves must make it attractive for their personnel to render public service without loss of status upon return to their business positions.

3. *Commercial Attaches*—Every effort should be made to improve the position of the Commercial Attaches and to establish a closer relationship between them and the Department of Commerce. The Department of Commerce should play a greater role in their selection and training. Their rank in the foreign service should be substantially advanced and be commensurate with the importance of their role. Their contacts with American business through the Department of Commerce should be firmly established and developed. Effective administrative arrangements should be made by the Departments of State and Commerce to this end.

B. OFFICE OF PRIVATE PARTICIPATION

An Office of Private Participation should be established under the authority of the Under Secretary of State for Economic Affairs wherever he may deem appropriate.

It is recommended that this Office be staffed by a combination of highly qualified career government employees and others drawn from private business. Those from private business should be men of recognized stature who will command the respect and enlist the assistance of the industrial, commercial and financial community.

This Office should serve as the central point in government concerned with assuring that private enterprise is used as fully as possible in accordance with the recommendations in Section II. Its function would be threefold: It would plan for the maximum use of private capital resources on each project and in each country program. It would seek ways and means of utilizing individuals, industrial companies, financial institutions, universities and foundations to provide engineering and management skills as well as capital and technical know-how for specific development projects. It would endeavor to work out appropriate arrangements between private interests and government agencies in situations which suggest such teamwork.

The Office should avoid duplicating the activities of other departments and agencies and should make full use of their reports and resources, particularly those of the Department of Commerce.

C. ADVISORY GROUP

An advisory group from industry should be formed to serve as a channel of direct and speedy communication between the business community and the proposed Office of Private Participation. This group should be composed of outstanding representatives of United States business and finance.

The industry advisory group would serve two main purposes:

1. To assist the Office of Private Participation in finding and selecting the best suited organizations or individuals for particular foreign development projects.
2. To mobilize the resources of industry in carrying on an improved program of public relations in foreign countries as proposed in Section VI.

IV. GOVERNMENTAL PROGRAMS

Section II dealt with private enterprise in foreign development. In this Section the Committee makes certain additional suggestions regarding governmental programs, national and international.

A. FORMS AND CONDITIONS OF UNITED STATES AID

1. *Grants and Soft Loans*

In principle there is much to be said for extending financial aid to governments in the form of either hard loans or grants, rather than soft loans, i.e., dollar loans repayable in local currencies. The grant reflects the facts of the transaction whereas a soft loan assumes repayment of value which, in terms of dollars, is not likely to be realized.

The Committee understands, however, that both the Congress and the Administration consider that the advantages of soft loans outweigh their disadvantages. In view of this, the Committee recommends the following:

- a. Every effort should be made to administer loans, both hard and soft, along sound banking lines, once they have been made. This applies to the service of both interest and principal.
- b. Future utilization of repayment proceeds should be a factor in considering the merits of each soft loan. Forward planning for such utilization is desirable in order to avoid large-scale accumulation of United States owned local currencies. Repayment proceeds should be utilized as promptly as possible (taking into account monetary conditions in the recipient country) by the U. S. Government, United States industry or by local industry, either directly or through local development banks.
- c. Restrictions with regard to the use of repayment proceeds should be relaxed so that the funds may be available for a wide range of constructive purposes. This may involve legislation or renegotiation of agreements.
- d. The Development Loan Fund should reconsider continuing the provision requiring maintenance of value on loans to governments.
- e. The present "no year" appropriations for the Development Loan Fund are conducive to continuity and sound project development and should be continued.

2. *Agricultural Surpluses and Local Currencies*

The disposal of agricultural surpluses should be better coordinated with our other foreign aid programs and should not be allowed to conflict with basic United States foreign economic

policies. In principle, it would be more realistic to make outright grants of these surpluses rather than sales. If our Government continues to make sales, however, it is important to plan for the utilization of local currencies as soon as reasonably possible, again taking into account monetary conditions in the recipient country. To reduce the excessive amounts of local currencies accruing to the United States from agricultural disposals, grants should be made in appropriate instances for development, educational and other worthwhile purposes.

Every effort should be made to reserve local currencies under the Cooley Amendment for loans to American private firms, and also a portion of United States owned local currencies generated under other programs in countries where sufficient Cooley funds are not available.

The requirement for maintenance of value of local currencies received from P.L.-480 sales should be eliminated.

3. Easy Term Loans Repayable in Dollars

An alternative to both soft loans and grants would be loans repayable in dollars but carrying easier interest and repayment terms than World Bank or Export-Import Bank financing. Assuming the centralized organization recommended in Section III-A, such easy term loans to governments repayable in dollars should not be flatly banned but might be used judiciously.

4. Conditions and Restrictions

Favorable political or psychological effects in recipient countries and long-term economic values should both be considered in project assistance. Therefore, whatever conditions and restrictions are imposed should not be such as to detract from those effects and values.

To assure proper use of United States assistance, special attention should be given to the manner in which the recipient country uses its total resources, as demonstrated by such factors as monetary and fiscal policies and the quality of administration.

The United States should eliminate or minimize the numerous existing restrictions on the uses of aid that are designed to subsidize or protect particular economic groups in the United States but run counter to the basic purposes of the aid program (e.g., prohibitions on the use of aid funds to develop industries or crops which might at some time compete with United States exports).

5. Military and Economic Aid

Purely military assistance, i.e., hardware and training, should be separated from the foreign aid program and incorporated in the Department of Defense budget.

B. INTERNATIONAL INSTITUTIONS

1. World Bank and Monetary Fund

The Committee supports the U. S. Government's proposal for an increase in the authorized capital of the International Bank for Reconstruction and Development and in the quotas assigned to member governments of the International Monetary Fund. To the extent that

the World Bank or the International Finance Corporation require local currencies (not otherwise available to them) for package lending, arrangements should be worked out (including amendments to international agreements and legislation) through which part of the local currencies owned by the United States and not needed for its own purposes can be channeled on proper terms to these organizations.

2. International Development Association

If the U. S. Government should join in the creation of an International Development Association, the Committee recommends:

- a. The administration of the Association should be under the auspices of the International Bank for Reconstruction and Development.
- b. Member countries should make contributions in reasonable relationship to that of the United States.
- c. The United States should have a voice proportionate to its financial contributions.
- d. The loans of the Association, whether hard or soft, should be administered as far as possible on sound banking principles.

3. Regional Lending Institutions

If the U. S. Government decides to participate in regional banks or lending associations, the Committee urges that such participation be conditioned on other countries' making proportionate contributions. As in the case of the International Development Association, the United States should have a voice proportionate to its financial contributions.

4. International Consultation

The Committee favors increased use of consultation and agreement by this country with its Free World allies among the industrialized countries for the purpose of coordinating assistance to specific critical countries. In view of the recent strengthening of the reserve positions of other industrialized Free World countries, the Committee heartily endorses the efforts which are being made to induce them to provide a greater share of financial aid on their own or through package arrangements.

V. TRADE AND TRANSPORTATION

A. WORLD TRADE AND ECONOMIC STABILITY

1. The expansion of trade between the industrialized and the less developed countries of the Free World should be recognized as one of the principal means of promoting economic development. It is recommended:

- a. These countries should make further efforts to reduce barriers and to facilitate multi-lateral trade. With regard to the less developed countries, attention should be paid to improving their export position and thereby their capacity to import and their internal

economies. Advantage should be taken of reciprocal trade agreements and of the General Agreement on Tariffs and Trade (GATT) for these purposes.

b. The Committee welcomes the recent liberalization of European currency restrictions as a step in the right direction. The increased convertibility of currencies, particularly sterling, will facilitate the interchange of goods and services and financial transactions arising out of them.

c. Commercial Attaches in the various capitals should devote increased attention to United States business and investment opportunities and to imports as well as to United States exports.

2. When economic distress in raw material countries occurs through major price fluctuations, the United States, being the world's principal consumer of many commodities, has a particular interest. It is recommended:

a. Where there is demonstrated need, the United States should take steps in cooperation with producing and consuming countries to assist in reducing fluctuations of certain major commodity prices (e. g., by international study groups). The aim should be to bring production and consumption more nearly in line and to insure more orderly markets, but to avoid underwriting fixed prices, which tend to perpetuate excessive production.

b. When the United States participates in international commodity study groups or discussions, or when it is asked to make balance of payment loans arising out of declining commodity prices, it should exert its influence in support of realistic plans and diversified economies in the producer countries rather than temporary relief by palliatives.

3. The United States and other Free World countries should recognize that the Soviet Bloc countries, under their economy, can and do underprice their competitors to any degree they consider useful to their aims. It should be recognized, however, that not all Soviet Bloc trade activities are inimical to the interests of the Free World. In some cases they may represent "normal" international commercial transactions.

The United States should be forehanded and should now work out understandings with other Free World countries for combined action against Communist Bloc monopolistic trading activities.

B. EAST-WEST TRADE

1. *USSR-Satellites*

As long as the Cold War continues, it is proper that some degree of control should be exercised by the Free World on trade with the USSR and the Satellites. The so-called COCOM list was considerably liberalized in August, 1958, probably to a sufficient degree for the present. It is recommended:

a. On the assumption that the COCOM list now contains all militarily important items, the United States Positive List should be limited to those additional items as to which United States equipment and technology are clearly superior to the other COCOM countries.

b. The United States should consider possible promotion of certain kinds of non-strategic trade with the Soviet Bloc. If additional consumption of consumer goods could be stimulated, the result might be to produce pressures within the Bloc, tending to divert resources from war potential to consumer goods.

c. Advanced technical and technological information not generally available in published form should be treated in the same way as goods and equipment. No restriction, however, should be put on ordinary published and freely circulated scientific or technological data, patent specifications or other information.

d. The United States should not extend government credit or loans to the Soviet Bloc for trade purposes unless highly advantageous political gains are to be anticipated. At an appropriate time, however, consideration might be given to the relaxation of controls over private capital (Johnson Act).

e. The United States should abandon its efforts to control exports of foreign subsidiaries of United States companies.

2. Communist China

The Committee makes no recommendation on trade with Red China other than that the subject should be kept under review.

C. CIVIL AVIATION

1. The Communist nations control a great land mass over which air rights are now denied to Free World airlines. This will give the Soviet airline, Aeroflot, in future years a tremendous strategic advantage in serving most of the less developed countries of Asia. To counter this strategic advantage, the U. S. Government should encourage all countries to obtain adequate reciprocal air rights from the USSR in return for those which they give.

2. The Soviet Bloc countries are now seeking by technical aid and the contribution of flight equipment to infiltrate the civil air operations of the less developed countries.

Internal and regional air transport operations, if kept free from Soviet infiltration, will make a major contribution to the economy, security and continued independence of largely uncommitted countries.

United States airlines and the other airlines of the Free World should be encouraged to provide technical and managerial assistance in the development of civil aviation in these areas. The U. S. Government should make available flight equipment and related facilities on a basis competitive with Soviet proposals. With such equipment, United States' airlines could negotiate arrangements with those countries for sound and orderly development of internal and regional air services. The necessary financial support to implement such programs should be given high priority.

VI. THE UNITED STATES IMAGE ABROAD

In the less developed countries, it is important that we improve the understanding of the United States, its institutions and its aims. This is as important as economic assistance. The behavior and attitude of our people at home and abroad often have greater effect than grants or loans. Actions speak louder than words.

It is recommended:

A. The image in less developed countries which we should seek to create is that of a United States whose own long-term interests are linked with the freedom and economic advancement of other countries. The peoples and leaders of each country must be convinced that the United States' economic program is a part of a two-way cooperative effort. We must make clear that, contrary to Communist and other propaganda, there is a fundamental community of interest between the United States and the recipient country.

B. The activities of private business abroad as well as those of government must be related to the image which we wish to establish so that both contribute to its realization. The achievement of a favorable image is essential to the continued success not only of government policies but of foreign private business as well.

C. Government agencies should exercise leadership in projecting this image. They should keep this objective uppermost in mind in the administration of aid programs.

D. Jurisdiction over the operations of the U. S. Government in this field and responsibility for enlisting the cooperation of private enterprise should lie with the Department of State. The USIA should report to the Department of State.

E. Greater efforts must be made to ascertain the views and attitudes of the peoples of the less developed countries toward the United States and its institutions. To this end opinion research surveys by USIA should be substantially expanded.

F. The present government and private "leadership" programs for developing among the opinion leaders abroad an understanding of and support for the United States, its objectives and its institutions should be expanded and made more effective.

1. Leadership programs should be developed primarily by agencies and persons for whom the relationships are most natural and enduring; i.e., engineer to engineer, educator to educator, business manager to business manager.

2. Government, foundations and corporations should give substantially greater encouragement and support to the various trade and professional organizations for which there are counterpart groups abroad so as to enable them to sponsor more exchanges of individuals and information.

3. Overseas educational institutions sponsored from the United States should be used to improve international understanding of this country's principles and ideals. This would be an effective way of using P.L.-480 funds.

APPENDIX I

CWEP RECOMMENDATIONS RESPECTING AMENDMENTS TO THE INTERNAL REVENUE LAWS TO ENCOURAGE FOREIGN INVESTMENTS

1. The following amendments are suggested to encourage investments in corporations that engage in business abroad:

A. Define a new tax entity to be known as a Foreign Business Corporation: A domestic or foreign corporation could qualify as a Foreign Business Corporation if a specified percentage of its assets, employees, or sales were located abroad.

B. Provide that a United States corporation that is a Foreign Business Corporation may elect to be taxed as a foreign corporation. Such corporation would then be subject to United States tax only on its income from United States sources. This amendment will eliminate the discrimination of present laws, which encourage incorporation abroad.

C. Provide that dividends from a Foreign Business Corporation shall be subject to the 85% dividends received deduction to the same extent as dividends from a regular domestic corporation. To prevent double deductions, provide that a taxpayer may not claim the dividend received deduction with respect to a dividend where it claims the foreign tax credit with respect to such dividend. (The foreign tax credit will be more advantageous where the foreign corporate tax rate is high.) Any dividend declared by the parent company would of course be subject to regular United States tax, notwithstanding that it represents income earned by a foreign subsidiary.

D. Limit section 367 so that it is inapplicable to the transfer of assets or stock to a foreign corporation if either (a) the transfer is part of the transfer of all of the assets of a foreign branch to such a corporation; or (b) the property transferred consists of section 1231 assets (real estate and depreciable property) that are to be used by the foreign corporation in its business; or (c) the property transferred consists of stock of a Foreign Business Corporation. This limitation of section 367 should be subject to such safeguards as are necessary to prevent abuse, particularly some requirement that the assets and stock transferred continue to be held by the transferee foreign corporation.

E. Permit all regulated investment companies to pass through to their stockholders the foreign tax credit on dividends and interest received from foreign corporations.

2. The following proposals are made with respect to the taxation of foreign income received by United States citizens, partnerships, and corporations that do not qualify as Foreign Business Corporations:

A. A foreign branch which maintains separate accounts, and which would qualify as a Foreign Business Corporation if separately incorporated, should be permitted to elect to be taxed as a Foreign Business Corporation. Proper safeguards should be provided against abuse, particularly with respect to the tax consequences at the time the branch is permitted to revoke its election.

B. Permit individuals to deduct as ordinary deductions losses on certain investments in foreign businesses that would now be treated as capital losses.

C. The United States should conclude treaties like the originally proposed Pakistan treaty that allow a credit for foreign taxes waived by the foreign country; there would be no loss of United States tax to the extent that the foreign country would not otherwise waive such taxes.

D. The limitations on the foreign tax credit should be amended to permit a taxpayer to elect each year between an over-all limitation and the per-country limitation.

APPENDIX 2

CWEP RECOMMENDATIONS RESPECTING ANTITRUST

Certain statutory and administrative changes in the application of the antitrust laws to selected foreign transactions should provide substantial stimulus to the investment abroad by American industry of its capital, industrial techniques, patents, etc., particularly in cooperation with other American or foreign companies. The business risks to be undertaken in making foreign investments, particularly in underdeveloped countries, are often such that individual companies feel impelled to share such risks and burdens with others. Assurance that any such cooperative ventures would not run afoul the antitrust laws should greatly encourage such investments. Accordingly, this Sub-Committee makes the following recommendations:

1. In order to bar civil or criminal antitrust prosecution and treble damage claims, a provision should be added to the Mutual Security Act which would exempt from the antitrust laws arrangements made in furtherance of the Foreign Aid Program. Such a provision would be in substantial conformity with the antitrust exemption enacted as Section 708 of the Defense Production Act of 1950 (64 Stat. 818), except that subsection (c) thereof should be revised to delineate the responsibilities of the various officials concerned with the granting of any such exemption, and subsection (d) thereof should be modified to prevent prosecution or claims for continuing acts or omissions commenced in reliance upon a previously granted exemption. (See Attachment X.)

2. Pending legislative action of the type recommended above, present practices of the Department of Justice in the issuance of rulings to industry members as to whether proposed foreign transactions may violate the antitrust laws should be revised by administrative action, as follows:

- (a) Adopt a policy of approving for antitrust clearance applications which are important to the Foreign Aid Program, unless it appears probable that a substantial violation of the antitrust laws will be incurred thereby.

- (b) Establish procedures for expeditious review, in the light of public interest, of applications previously certified as important to the Foreign Aid Program.

- (c) Provide for prompt issuance of rulings after such minimum investigation as may be reasonably necessary; and avoid, to the extent possible, investigations which might prove burdensome to the applicant in its business.

- (d) Rulings should contain an undertaking that, if subsequent action should conform with proposals presented, the Government would refrain from subsequent attack under the antitrust laws.

The actual restraint on the interstate or foreign commerce of the United States in the case of an investment in an underdeveloped country would, in most instances, be so insignificant as not to violate either the spirit or language of the antitrust laws. Liberalization of the administrative procedures of the Department of Justice in applying the antitrust laws to desirable foreign investments by private enterprise could greatly reduce the hazards of subsequent litigation.

ATTACHMENT X

PROPOSED AMENDMENT TO THE MUTUAL SECURITY ACT OF 1954: ANTITRUST EXEMPTION

(a) The President is authorized to consult with representatives of industry, business, financing, agriculture, labor, and other interests, with a view to encouraging the making by such persons with the approval by the President of voluntary agreements and arrangements to further the objectives of this Act.

(b) No act or omission to act pursuant to this Act, if requested by the President pursuant to a voluntary agreement or arrangement approved under subsection (a) and found by the President to be in the public interest as contributing to the objectives of this Act shall be construed to be within the prohibitions of the antitrust laws or the Federal Trade Commission Act of the United States. A copy of each such request intended to be within the coverage of this section, and any modification or withdrawal thereof, shall be furnished to the Attorney General and the Chairman of the Federal Trade Commission when made, and it shall be published in the Federal Register unless publication thereof would, in the opinion of the President, endanger the national security.

(c) The authority granted in subsection (b) shall be delegated only (1) to an official appointed by the President by and with the advice and consent of the Senate, except that such official may be appointed by the President without the advice and consent of the Senate if such official has been previously appointed to any office by the President by and with the advice and consent of the Senate, and (2) upon the condition that such official shall make a finding that any proposed request thereunder would promote the objectives of this Act, and (3) upon the condition that, not less than ten days before making any request thereunder, such finding and the proposed request be forwarded to the Attorney General and that such official consult with the Attorney General respecting the competitive effects likely to result from the making of such request, and (4) upon the condition that the Attorney General concur with such official's approval of any request thereunder before such request is made; provided however, that the Attorney General shall concur with such official's approval unless he shall find that the direct effect of such request would be to eliminate competitive conditions in the United States in the industry to which such request relates, or render ineffectual enforcement in the United States of laws respecting the maintenance of competitive conditions in such industry.

(d) Any exemption granted pursuant to subsection (b) hereof shall be applicable to any course of conduct taken in reliance thereon and shall survive the repeal of this Act, or any amendment or modification hereof.

(e) The Attorney General is directed to make, or request the Federal Trade Commission to make for him, surveys for the purpose of determining any factors which may tend to eliminate competition, create or strengthen monopolies, injure small business, or otherwise promote undue concentration of economic power in the course of the administration of this Act. The Attorney General shall submit to the Congress and the President within ninety days after the approval of this Act, and at such times thereafter as he deems desirable, reports setting forth the results of such surveys and including such recommendations as he may deem desirable.